Papua New Guinea

Papua New Guinea has experienced four consecutive years of moderate expansion, with real GDP growth rising to an estimated 3.7 percent in 2006. Inflation and interest rates on government securities remain modest, employment increased significantly in 2006, government debt has fallen sharply as a share of GDP, and foreign reserves have grown to more comfortable levels. High world prices for key export commodities (oil, copper and gold) have clearly helped economic performance, and contributed to significant fiscal and external current account surpluses in 2006. But prudent fiscal management has also played an important role. The forthcoming elections in July 2007 will mark the first time in Papua New Guinea's history that the Government will have remained in office for its full term. At the same time, poverty remains high, human development indicators weak, the quality of education and health care delivery poor, and the incidence of HIV/AIDS has increased sharply.

Growth of over 4 percent is forecast for 2007, reflecting an expansion in mineral production as new mines are opened, and a more expansionary fiscal stance. The non-mineral sector is expected to continue to grow by about 4 percent. Employment rose sharply across most sectors in 2006 with employment in non-mining and mining sectors up by 8 and 6 percent, respectively—though urban unemployment remains very high.

A budget surplus of 6.4 percent of GDP in 2006 is attributable to increased mineral tax receipts and lower than budgeted development spending due in part to delayed supplementary budgets. A smaller fiscal surplus is projected for 2007 owing to a decline in projected mineral tax revenue and higher spending in the lead-up to the general elections. To maintain fiscal discipline, the 2006-07 budgets allocate spending away from current expenditure to one-off development expenditure mostly in infrastructure and human capital. Restrained fiscal policy in recent years—spending/GDP declined even as revenue/GDP has grown—has facilitated a significant reduction of central government gross debt from over 60 percent of GDP in 2003 to below 40 percent in 2006.

Average inflation increased somewhat in 2006 to 3.5 percent and may do so again in 2007 as higher government spending places upward pressure on prices. But it will likely remain within the Central Bank's medium-term inflation target range of 2.5 to 4.5 percent. Private credit growth remains strong while Treasury bill yields have declined slightly to the 3-4 percent range as issuance of Treasury bills ceased after May, in light of the continuing cash surplus.

The current account surplus nearly doubled as a share of GDP to about 7½ percent in 2006, benefiting from high commodity prices, but also reflecting strong growth of non-mineral exports. The kina remained broadly stable in 2006, appreciating by about 3 percent against the U.S. dollar. International reserves rose by about 90 percent in 2006 to nearly US$1.5 billion, and amounted to over 8 months of mineral imports (and nearly 4 months of total imports).

While the macroeconomic outlook remains favorable, uncertainty has increased as a result of the looming general elections and the relatively frequent recent cabinet changes. The A$8 billion (K20 billion) PNG-Australia gas pipeline project, which was due to begin construction in late 2006, has been called off following a commercial reassessment by foreign partners.